"Investment motives and preferences – An empirical inquiry during COVID-19"

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BUSINESS PERSPECTIVES

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INVESTMENT MOTIVES AND PREFERENCES – AN EMPIRICAL INQUIRY DURING COVID-19

Abstract

Following the COVID-19 breakout, investment in shares, mutual funds, and life insurance are witnessing a growing trend in India. Hence, examining the determinants of investor preferences is necessary to maintain a positive trend. This study analyzes the impact of investor motives and awareness on investor preferences using the data collected from 753 Indian investors in 2020. Factor analysis grouped the investment motives into six categories, namely Nature of investments, Future financial needs, Investor personal characteristics, Safety and stability of investments, Investor behavioral aspects, and Investor's options. The regression model used to find the impact of the investment motives and the awareness on the investor preferences explains 52.3% of changes in investor preference. Investment factors like Nature of investments, Investor personal characteristics, Investor behavior, Investor options, Awareness of mutual funds, and shares have a significant impact on investor preferences. Further, the awareness level of mutual funds and the stock market are the major variables contributing to Investors' preference rather than identified investment factors. Investors' personal characteristics like knowledge, confidence, ability, responsibility, and belief negatively influence investor preferences. This study adds to the existing literature by analyzing investment motives and preferences during the pandemic.

INTRODUCTION

COVID-19 has empowered businesses to move towards digital transformation and has changed the way goods and services are offered to customers. More than any other business, financial services like banking and investments have seen an increase in digitization after the breakout of the pandemic. Work from home conditions insists individuals increase income through additional sources (Alvares, 2020). Hence, new investments in shares, mutual funds, and life insurance have seen a significant increase during the year 2020 with digital facilitation (Express News, 2020; Aparajita, 2020; Bernet International, 2020). India's leading depository, Central Depository Services Limited (CDSL), has reported that the number of Demat accounts increased by 25% in just a span of six months post-COVID-19 (CDSL, 2020).

To support the investment trend, regulators like the Securities Exchange Board of India (SEBI) have eased the offering of mutual funds and initial public offerings through unified payment interfaces (UPI), intending to give easy access to the above-mentioned investment avenues and increase investor participation (SEBI, 2020). Generally, investors have different motives to invest in an investment avenue. Further, understanding the motives of investors during post-COVID-19 is crucial than ever before to sustain the positive investment trend in shares, mutual funds, and life insurance. Various research studies have found the impact of demographic factors on investor preferences, however, analyzing the influence of investment

motives on investor preferences is important to identify significant investment motives that cause preference towards the selected investment avenues. Hence, this study examines a wide range of investment motives and establishes a model to analyze the impact of investment motives and awareness on investor preferences towards shares, mutual funds, and life insurance.

Factor analysis is performed to group the correlated investment motives, and multiple regression is used to find the impact of investment motives and investment awareness on investor preferences. The comprehensive regression model shows important factors influencing the investor's preference to invest in the selected invested avenues.

1. LITERATURE REVIEW

Investors in India mostly prefer traditional investments offered by banks such as fixed deposits and recurring deposits, because the major concern of Indian investors is the safety of their investments. In the last two decades, Indian investors have started to invest in life insurance and other non-traditional avenues like shares and mutual funds. Though life insurance investments are primarily driven by the objective of protecting for the future uncertain events, mutual funds and shares are a significant change happened to investor preferences towards risky investments aiming at higher returns. The trend of investing in mutual funds and shares has grown, but at a very minimal level. Even today, only about 3% of India's population has Demat accounts, which means that only 3% have exposure in share market investments.

However, the trend is changing, and more young Indians are showing interest in high risky investments. It is apparent, in 2020, despite the economic uncertainty after COVID-19, investment in shares, mutual funds, and life insurance are witnessing a significant increase (Ravi, 2020; Financial Express Bureau, 2020). Due to the economic meltdown caused by the COVID-19 lockdown, businesses and income got heavily affected. Particularly, the salaried workforce was asked to work from home. Hence, the sudden change in the personal financial conditions and favorable working conditions made investors seek high rewarding investment options such as life insurance, mutual funds, and shares with different investment objectives. Further, investors consider different investment objectives while preferring an investment avenue.

Examining the relevant literary works of the past, research in the Indian context has explored the significance of a wide range of investment factors affecting investor preferences. In general, liquidity of an investment avenue i.e., the ease of converting or selling an investment avenue, and the expected rate of return are considered important while choosing an investment (Bhuvaneswari, 2012). Besides, interesting attributes offered by investment avenues like higher returns and tax savings are also taken into consideration (Kukreja, 2012). Further, the research study by Mahadevi and Krishnan (2014) and Shukla (2016) found that individuals give importance to save for future security. Future security insists on the financial ability to meet uncertain financial needs in the future.

Similarly, investment-specific factors like safety and security of an investment, the ability of the investment to generate periodic returns, the level of wealth addition as capital gain are also considered (Harikanth & Pragathi, 2012; Parimalganthi & Kumar, 2015). Hence, investors are concerned about the overall return in terms of periodicity and capital gain. Further, Srividya (2009) and Vijaykumar (2015) add that tax benefit and ease of purchasing an investment avenue also play a predominant role in deciding an investment avenue. Ease of purchasing refers to the business, legal and regulatory processes involved in investing in an investment avenue.

The literature shows that investment objectives vary significantly from investor to investor, depending on their demographic factors. Jain (2014) found that safety and regular income are highly valued, especially by female investors. Further, salaried investors, nevertheless of age and income besides their occupation and marital status, prefer the investment option providing long-term benefit, highly secured and profitable avenues (Priya, 2015).

In addition to the demographic and socio-economic factors, investment-related information and awareness significantly drive investors towards choosing an investment avenue. Goyal and Sharma (2014) and Saibaba et al. (2002) found that knowledge about investment avenues significantly influences investment preference towards the avenue. In addition to knowledge, personal characteristics significantly influence an individual's investment decision.

Previous research proves that personal characteristic aspects such as level of confidence about managing the investment avenue also influence investment decisions (Arti, 2011; Dutta, 2000). In addition, when it comes to investor characteristics, investor behavioral aspects like herd mentality and mental accounting also significantly influence investment preference (Riyazahmed & Saravanaraj, 2016). Herd mentality refers to the scenario that the investor follows the majority decision in investing or selling an avenue. Likewise, mental accounting is a behavioral bias, which refers to the different values an investor places on the same amount of money based on subjective criteria referring to the origin of money and its intended use. Hence, based on the literature review, the study considered a wide range of investment objectives to examine the impact on investor preferences.

1.1. Hypothesis development

The study examines 25 investment factors to extract common investment motives through factor analysis. Besides, multiple regression is performed to analyze the impact of investment motives and investor awareness on investment preferences.

The objectives of the study are as follows:

1. To identify investment motives influencing investment preferences.

2. To analyze the impact of investment motives and investment awareness on investor preferences.

Below is the hypothesis tested during the study:

H0: *Investment motives and investor awareness have no significant impact on investor preferences.*

H1: *Investment motives and investor awareness have a significant impact on investor preferences.*

2. METHODOLOGY

The study uses primary data collected through the questionnaire using the convenience sampling method. The questionnaire was divided into three parts. The first section focuses on the demographic and socio-economic profile of respondents. This section collected information about respondents' gender, age, income, education, geographical region, marital status, and family type. The second section focused on investors' importance towards twenty-five investment motives while investing selected investment avenues. Importance towards twenty-five investment factors is measured on a five-point scale (1 Highly disagree to 5 Highly agree).

The third section collected investors' preference towards investing in avenues such as Mutual funds, Life Insurance, and Shares. Investor preference is measured on a five-point scale (1 Least preference to 5 High preference). The fourth section collected investors' awareness towards the selected investment avenues. Investor awareness is measured on a five-point scale (1 Highly unaware to 5 Highly aware).

A pilot study is conducted with 50 samples. A scientifically arrived sample size of 753 is collected during the year 2020 and analyzed using Statistical Package for Social Sciences (SPSS). To achieve the results, a linear regression model was developed with the extracted factors and awareness as independent variables and investor preference as a dependent variable.

3. RESULTS

The respondents of the study are educated males, private employees aged between 26 to 55. Almost 82% of them are married and live mainly in urban area. They belong to a nuclear family of 4 members and 1 earning member, with an average income ranging from ₹10000 to ₹30000 (Table A1). Thus, the profile best represents a standard investor de-

Table 1. Mean response to various investment motives

S.No	Investment motives	Mean	Std. deviation	S.No	Investment motives	Mean	Std. deviation
1	Safety of investments	4.52	1.471	14	Personal ability to manage investment	3.98	1.385
2	Investing for children's future	4.49	1.577	15	Personal knowledge about investment	3.97	1.267
3	Investing based on financial responsibility	4.38	1.313	16	Stability of the return from investment	3.96	1.029
4	Experience of prior loss	4.28	1.685	17	The riskiness of investment	3.92	1.352
5	Return on investment	4.26	1.358	18	Liquidity of investment	3.9	1.234
6	Tax benefits of an investment	4.21	1.589	19	Retirement planning purpose	3.68	1.658
7	Self confidence in managing investments	4.19	1.314	20	Previous investment experience	3.65	1.552
8	Periodical returns from an investment	4.19	1.306	21	Going with majority decision	3.56	1.564
9	The timeframe of an investments	4.14	1.212	22	Healthcare	3.41	1.69
10	Growth of an investment	4.12	1.467	23	Uncertain events	3.18	1.859
11	Expert advice for an investment	4.08	1.5	24	House purchase	3.12	1.916
12	Self-belief in managing investments	4.06	1.549	25	Mental accounting	2.67	1.737
13	The convenience of an investment	4.04	1.444				

mographic and socio-economic scenario in the Indian context (Bloom, 2011; Securities Exchange Board of India, 2016).

The mean responses towards various investment motives reveal that motives like the safety of investment, investing for children's future, investing based on financial responsibility, the experience of prior loss, return on investment, and tax benefits of an investment are considered very important. Motives such as mental accounting, house purchases, and uncertain events are considered the least important.

3.1. Factor analysis

Factor analysis summarizes the collected data into a few key dimensions. To reduce the dimensions of the collected data, principal component analysis is performed. An initial analysis with all 25 motives resulted in a Measure of Sampling Adequacy of .846, which indicates that factor analysis can be applied to the data (Table 2).

Table 2. KMO and Bartlett's test

Kaiser-Meyer-Olkin measure of sampling adequacy		0.846
Bartlett's test of sphericity	Approx. chi-square	11149.713
	Df	300
	Sig.	0

Table 3 shows the number of components extracted with eigenvalues and the cumulative variance explained by them. The component matrix details the factor loading into six factors before they have been rotated.

Table 3. Identified factors

	Factor	Items	% of variance exp
1	Nature of investment	Periodical return	18.643
		Expert advice	
		Convenience	
		Tax benefits	
		Return	
		Growth	
		Riskiness	
2	Future financial needs	Uncertain events	16.223
		Retirement planning	
		House purchase	
		Child future	
		Healthcare	
3	Investors' Personal characteristics	Knowledge	11.639
		Confidence	
		Ability	
		Responsibility	
		Belief	
4	Safety and Stability of investments	Timeframe	10.239
		Safety	
		Stability	
		Liquidity	
5	Investors' behavior aspects	Previous experience	8.008
		Prior loss	
		Majority decision	
6	Investors' options	Mental accounting	4.928

Table 4. Percentage of variance explained

Factor	Statements	% of variance explained	Cumulative % of variance explained	Reliability coefficient
Nature of investment	Periodical return	18.643	18.643	0.907
	Expert advice			
	Convenience			
	Tax benefits			
	Return			
	Growth			
	Riskiness			
Future financial needs	Uncertain events	16.223	34.866	0.936
	Retirement planning			
	House purchase			
	Child future			
	Healthcare			
Investors' personal characteristics	Knowledge	11.639	46.505	0.81
	Confidence			
	Ability			
	Responsibility			
	Belief			
Safety and stability of investments	Timeframe	10.236	56.742	0.786
	Safety			
	Stability			
	Liquidity			
Investors' behavior aspects	Previous experience	8.008	64.75	0.72
	Prior loss			
	Majority decision			
Investors' options	Mental accounting	4.928	69.677	–

The initial eigenvalues column shows the eigenvalues this study is interested in. Only six factors have eigenvalues greater than 1. Several variables appear to load onto factor 1 to a reasonable extent. The study has selected the Principal Component Analysis with a Varimax rotation; the Rotated Component Matrix gives a clearer picture than the Component Matrix of factor loading onto the six factors.

All the six extracted factors have satisfied the norms of internal consistency as the reliability coefficient is more than 0.6 (Table 4). After establishing the individual item's reliability of the factors, the validity of each factor is verified. Further, the construct reliability for all the factors is well above the accepted level of 0.6. Also, average variance explained values are more than 0.5, hence, average values of each factor are taken for further analysis.

3.2. Regression analysis

To achieve the results, the following linear regression model was developed:

$$Y = \beta_{constant} + (\beta_1 \cdot v_1) + (\beta_2 \cdot v_2) + (\beta_3 \cdot v_3) + \\ + (\beta_4 \cdot v_4) + (\beta_5 \cdot v_5) + (\beta_6 \cdot v_6) + (\beta_7 \cdot v_7) + \\ + (\beta_8 \cdot v_8) + (\beta_9 \cdot v_9), \quad (1)$$

where Y is the dependent variables, i.e., Investment preference, v_1 is the Nature of investment (NOI), v_2 is the Future financial needs (FFN), v_3 is the Investors' personal characteristics (IPC), v_4 is the safety and security (SS), v_5 is the Investor behavioral aspects (IBA), v_6 is the Investor Option (IO), v_7 is the awareness of Mutual funds (A -MF), v_8 is the awareness of Life Insurance (A-LI), and v_9 is the awareness of Shares (A-Shares). The corresponding β values show the impact of each independent variable on the dependent variable.

3.3. Investment preference

The mean response of investors shows a moderately high preference to invest in life insurance. Further, mutual funds and shares are preferred lesser than life insurance. The mean level of preference towards shares, mutual funds, and insurance of each respondent is taken as a dependent variable.

Table 5. Mean preference for investment avenues

Nontraditional avenues	Mean	Std. deviation
Mutual funds	3.56	0.596
Insurance	4.16	1.05
Shares	3.41	1.10

3.4. Investment awareness

The mean level of awareness about mutual fund and shares shows that investors are less informed about these investment avenues (Table 6). In life insurance, the awareness level is slightly better than the other two investment avenues. The mean level of awareness on each investment avenue is taken individually as independent variables. Prajapathi et al. (2020) conclude that awareness plays a significant role in investment preferences.

To analyze the impact of investor awareness on investor preference, three variables – mutual fund awareness, life insurance awareness, and share investment awareness – are included in the regression analysis, in addition to the extracted investment factors like the nature of investments, future financial needs, investor personal characteristics, safety and stability of investments, investor behavioral aspects, and investor options.

3.5. Correlation results

Correlation results show that the independent variable – Awareness on Mutual Fund – has a significant strong positive correlation (.713) with the preference of investors; also, the independent variables – Awareness on Life insurance (.516) and Awareness on Shares (.582) – have a moderate correlation with the preference of investors. Further, there is a moderate correlation among few independent variables – Nature of investment and Safety and security (.638), Awareness of mutual funds and LIC (.658), and Awareness of mutual funds and Stock market (.678), and Awareness of LIC and Stock market (.570). The correlations between the other independent variables are very low, and many of them are not statistically significant.

Table 6. Aggregate awareness level of investment avenues

Investment avenue	Awareness factors	Mean	Standard deviation
Life insurance	Premium payment norms, rights of policyholders, claim settlement, type of policy	2.69	1.35
Mutual funds	Rules and regulations, the safety of investments, tax benefits, maturity period, fund performance, trading options, lock-in periods, type of fund	2.25	1.22
Shares	Trading requirements, capital growth, dividend income, stock market indicators, fundamental financial information	2.26	1.24

Table 7. Correlation between variables

Variables	Preference	NOI	FFN	IPC	SS	IBA	IO	A-MF	A-LIC	A-Stock
Preference	1									
NOI	0.120*	1								
FFN	0.122*	−0.093*	1							
IPC	−0.021	0.278*	−0.012	1						
SS	0.031	0.638*	−0.06	0.296*	1					
IBA	0.350*	0.113*	0.212*	0.014	0.044	1				
IO	0.204*	0.108*	0.078*	0.017	0.101*	0.078*	1			
A-MF	0.713*	0.011	0.124*	0.018	−0.045	0.385*	0.119*	1		
A-LI	0.516*	0.062	0.103*	0.129*	0.03	0.355*	0.194*	0.658*	1	
A-Shares	0.582*	0.008	0.099*	−0.031	−0.022	0.303*	0.084*	0.678*	0.570*	1

Note: NOI – Nature of investment, FFN – Future financial needs, IPC – Investor's personal characteristics, SS – Safety and security, IBA – Investor behavioral aspects, IO – Investor options, A-MF – Awareness of mutual funds, A-LIC – Awareness of Life Insurance, and A-Stock – Awareness of shares.

Table 8. Regression model

Model summary [b]				
Model	**R**	**R square**	**Adjusted R square**	**Std. error of the estimate**
1	.747[a]	0.558	0.523	0.453

Note: a. Predictors: (Constant), Awareness of stock, Nature of investment, Investors' option, Future financial needs, Investors' personal characteristics, Investors' behavior, Awareness on life insurance, Safety & security, Awareness of mutual funds. b. Dependent variable: Investors' reference.

Table 9. Regression results

ANOVA [a]					
Model	**Sum of squares**	**Df**	**Mean square**	**F**	**Sig.**
Regression	192.71	9	21.412	104.196	.000[b]
Residual	152.686	743	0.205		
Total	345.395	752			

Note: a. Dependent variable: Investors' Preference. b. Predictors: (Constant), Awareness on stock, Nature of investment, Investors' option, Future financial needs, Investors' personal characteristics, Investors' behavior, Awareness on LIC, Safety and security, Awareness of mutual funds.

The regression result shows that the adjusted R-square is .523, which means that about 52 percent of the variation in the dependent variable – Investors' preference – is explained by the independent variables Nature of investment, Future financial needs, Investors' personal characteristics, Safety and stability, Investors' behavior aspects, and Investors' options; the Awareness on mutual funds, Life insurance, and Stock market (Table 8). A high F (9,743) =104.196 with a low p-value <.001 confirms that the first model is statistically significant in explaining the variation in investor preferences (Table 9).

The independent variables – Nature of investment (t = .3.777, p < .05), Investors' personal characteristics (t = –2.306, p < .05), Investors' behavior aspects (t = 2.040, p < .05), and Investors' options (t = 4.152, p < .05) – are significant in explaining

the variations in Investors' preference. However, the other independent variables, such as Future financial needs, Safety and security, Awareness on LIC, are not significant in explaining Investors' preference (p > .05) at the 5% significance level (Table10).

The fitted model for the Investors' preference dependent variable is expressed by the equation:

$$y = 0.692 + 0.072 \cdot v1 - 0.040 \cdot v3 + {}$$
$$+0.030 \cdot v5 + 0.041 \cdot v6 + 0.415 \cdot v7 + \quad (2)$$
$$+0.109 \cdot v9.$$

The standardized beta column (Table 10) shows that the variable Awareness on mutual funds has a high loading (.551) among all the independent variables, which implies that Investors' preference for investing is highly and positively influenced

Table 10. Regression coefficients

Coefficients [a]					
	Unstandardized coefficients	**Std. Error**	**Standardized coefficients**	**T**	**Sig.**
	B		**Beta**		
(Constant)	0.692	0.108		6.413	0
Nature of investment	0.072	0.019	0.122	3.777	.000*
Future financial needs	0.011	0.011	0.025	1.009	0.313
Investors' personal characteristics	−0.04	0.017	−0.06	−2.306	.021*
Safety and stability	−0.009	0.022	−0.013	−0.405	0.686
Investors' behavior aspects	0.03	0.014	0.056	2.04	.042*
Investors' options	0.041	0.01	0.104	4.152	.000*
Awareness on mutual funds	0.415	0.029	0.551	14.532	.000*
Awareness on LIC	0.009	0.022	0.015	0.427	0.669
Awareness on shares	0.109	0.022	0.169	4.931	.000*

by their Awareness of mutual funds. Also, the loading for the variable Awareness on shares is 0.169, indicating the next influencing variable to Investors' preference. Further, the variables Investors' options (.104) and Investors' behavior (.056) are the next influencing variables of Investors' preference. It is clear that the awareness level of mutual funds and the stock market is the major variable contributing to Investors'

preference rather than factors affecting investment decisions. Further, investors' personal characteristics like knowledge, confidence, ability, responsibility, and belief negatively influence investor preferences in the selected investment avenues. This is because more reliance on personal aspects will make investors risk-averse and impact the preference towards the selected avenues (Sahinidis, 2020).

CONCLUSION

The positive impact of COVID-19 on increasing investment in shares, mutual funds, and life insurance requires examining the investment motives that drive investors towards these avenues. An empirical study to analyze the investment motives is performed by considering a wide range of investment factors. The results of factor analysis grouped the investment motives into six categories, such as Nature of investment (i.e., periodical return, expert advice, convenience, tax benefits, return growth, and riskiness), Future financial needs (i.e., uncertain events, retirement planning, house purchase, child future, and healthcare), Investor personal characteristics (i.e., knowledge, confidence, ability, responsibility, and belief), Safety and stability of investments (i.e., time frame, safety, stability, and liquidity), Investor behavioral aspects (i.e., previous experience, prior loss, following majority decision), and Investor options (i.e., mental accounting). The regression model shows that the nature of the investment, investor personal characteristics, investor behavioral aspects, investor options, awareness of mutual funds, and shares are important determinants of investor preferences. Further, awareness of mutual funds and the share market highly influences investment preferences than other investment motives.

Like any research, this paper has the following limitation. Since the nature and purpose of the selected investment avenues differ, researching a specific investment avenue could help to gain a deeper understanding of the investment motives of shares, mutual funds, and life insurance individually. Besides, the impact of demographic and socio-economic variables can be analyzed to reflect the heterogeneity of Indian investors. This claim is also supported by the research work of Kumar et al. (2008).

AUTHOR CONTRIBUTIONS

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Formal analysis: Riyazahmed K.
Funding acquisition: Riyazahmed K.
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Validation: Riyazahmed K.
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APPENDIX A

Table A1. Respondent profile

Demographic – socio-economic profile		Frequency	Percentage
Gender	Male	581	77.2%
	Female	172	22.8%
	Total	753	100.0%
Employment	Private employee	338	44.9%
	Government employee	116	15.4%
	Business	218	29.0%
	Agriculture	81	10.8%
	Total	753	100.0%
Education	10th Std	197	26.2%
	Higher Secondary	126	16.7%
	under graduation	196	26.0%
	post-graduation	234	31.1%
	Total	753	100.0%
Age (in years)	Up to 25	69	9.2%
	26 to 35	217	28.8%
	36 to 45	190	25.2%
	46 to 55	212	28.2%
	Above 55	65	8.6%
	Total	753	100.0%
Marital status	Married	624	82.9%
	Single	129	17.1%
	Divorced	0	0.0%
	Total	753	100.0%
Family type	Nuclear family	549	72.9%
	Joint family	204	27.1%
	Total	753	100.0%
Location	Rural	277	36.8%
	Semi-Urban	121	16.1%
	Urban	355	47.1%
	Total	753	100.0%
Residence	Owned	555	73.7%
	Rented	198	26.3%
	Total	753	100.0%
Family Size	2	58	7.7%
	3	155	20.6%
	4	285	37.8%
	5	175	23.2%
	Above 5	80	10.6%
	Total	753	100.0%
Earning members	1	378	50.2%
	2	292	38.8%
	3	83	11.0%
	Total	753	100.0%
Monthly income (in Rs.)	Up to 10,000	181	24.0%
	10,001 to 20,000	218	29.0%
	20,001 to 30,000	144	19.1%
	30,001 to 40,000	47	6.2%
	40,001 to 50,000	60	8.0%
	Above 50,000	103	13.7%
	Total	753	100.0%